

Message Text

PAGE 01 KABUL 05979 131208Z

44

ACTION NEA-12

INFO OCT-01 EUR-25 ADP-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 OMB-01 DODE-00 PM-07 H-03 L-03

NSC-10 PA-03 PRS-01 SS-15 USIA-15 PC-15 IO-13 ABF-01

RSR-01 /198 W

----- 071846

R 130920Z AUG 73

FM AMEMBASSY KABUL

TO SECSTATE WASHDC 4647

INFO AMEMBASSY BEIRUT

AMEMBASSY BONN

AMEMBASSY ISLAMABAD

CUDTC/AMEMBASSY LONDON 472

AMEMBASSY MOSCOW

AMEMBASSY NEW DELHI

AMEMBASSY TEHRAN

CINCPAC

LIMITED OFFICIAL USE KABUL 5979

STATE PASS COMMERCE; CINCPAC FOR POLAD

3.O. 11652: N/A

TAGS: EFIN, AF, IR, LE, PK, IN, GW, UR, UK

SUBJECT: FREE MARKET FOREIGN EXCHANGE SYSTEM UNDER FIREN

REF: KABUL 5703

1. SUMMARY: IN FIRST FOUR WEEKS IN POWER REPUBLIC REGIME HAS
UNDERTAKEN SERIES OF HESITANT MOVES HINDERING OPERATION OF KABUL'S
TRADITIONAL FREE MARKET FOREIGN EXCHANGE SYSTEM. EMBASSY HAS AS YET
NO CLEAR READING WHETHER GOVERNMENT EVENTUALLY INTENDS TO ABOLISH
FREE MARKET AND INSTITUTE EXCHANGE CONTROLS OR WHETHER SITUATION

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 KABUL 05979 131208Z

IS TEMPORARY AND DUE TO INITIAL EFFORTS OF NEW REGIME TO
ASSERT AUTHORITY AND PREVENT CAPITAL FLIGHT. NO RPT NO
PUBLISHED REGULATIONS OR INSTRUCTIONS (EXCEPT FOR TOURIST
EXCHANGE DECLARATION) HAVE APPEARED. FINAL DECISION PROBABLY

DEPENDS ON GENERAL ECONOMIC PHILOSOPHY ADOPTED BY NEW GOVERNMENT WHICH NOT YET ANNOUNCED AND MAY WELL BE SUBJECT OF INTENSE DEBATE WITHIN CONFLICTING GROUPINGS MAKING UP NEW REGIME. END SUMMARY.

2. UPON ASSUMING AUTHORITY JULY 17 GOVERNMENT MOVED QUICKLY TO BLOCK POSSIBLE CAPITAL FLIGHT BY A) INITIALLY BANNING ALL TELEGRAPHIC TRANSFERS OF FUNDS EXCEPT THROUGH REGULAR BANKING CHANNELS FOR "LEGITIMATE BUSINESS PURPOSES", B) CENSORING FOR INDEFINITE PERIOD ALL OUTGOING MAIL WHILE LETTING IT BE KNOWN THAT FOREIGN CURRENCY CHECKS SENT OUT OF COUNTRY BY EXCHANGE DEALERS WOULD BE SEIZED, AND C) LIMITING TO \$50 (CASH PLUS TRAVELLERS CHECKS) AMOUNT OF MONEY THAT COULD BE TAKEN OUT OF COUNTRY BY DEPARTING "RESIDENTS", INCLUDING PEACE CORPS AND UNDP (REFTEL). NO RPT NO REGULATIONS OR INSTRUCTIONS HAVE BEEN PRINTED OR PROMULGATED AS FAR AS EMBASSY CAN ASCERTAIN ON ANY OF ABOVE, AND LIMITATIONS ON AMOUNTS CARRIED BY DEPARTING "RESIDENTS" HAVE ONLY BEEN APPLIED SPORADICALLY WITHOUT ANY ESTABLISHED PATTERN. THESE ACTIONS MAY BE VIEWED AS PART OF WIDER GOVERNMENT EFFORT TO ESTABLISH ITS AUTHORITY OVER GENERAL COMMUNICATIONS AS WELL AS FINANCIAL SYSTEM, BUT HAD INITIAL EFFECT OF ALMOST COMPLETELY SHUTTING DOWN MONEY BAZAAR. FURTHER MOVE WAS ESTABLISHMENT OF CURRENCY CONTROLS FOR TOURISTS ARRIVING BY AIR AS OF JULY 28 REQUIRING CURRENCY DECLARATION AND INSTRUCTIONS THAT FOREIGN CURRENCY MAY ONLY BE EXCHANGED AT DA AFGHANISTAN BANK (CENTRAL BANK) AND TH CLYECEIPTS ACCOUNTING FOR ALL FUNDS EXPENDED MUST BE PRESENTED ON DEPARTURE (REFTEL). IMPLEMENTATION OF THIS POLICY HAS BEEN HAPHAZARD BECAUSE NO RECEIPT FORMS HAD BEEN PRINTED AND TOURISTS HAVE BEEN DEPARTING WITHOUT PRESENTING DOCUMENTARY EVIDENCE.

3. KABUL FOREIGN EXCHANGE DEALERS TRADITIONALLY MAINTAIN BALANCE OF THEIR FUNDS ABROAD (EUROPE AND US MAINLY) AND REGULARLY TRANSFER SUBSTANTIAL SUMS IN AND OUT BY MAIL AND PERSONAL MESSENGER BECAUSE BANKING SYSTEM IS ANTIQUATED AND CATASTROPHICALLY INEFFICIENT. IF GOA EFFECTIVELY CONTINUES LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 03 KABUL 05979 131208Z

TYPE PRESSURE CITED IN PARA TWO ABOVE, IT MAY WELL RESULT IN EXTINCTION OF FREE MARKET AS WE HAVE KNOWN IT AND CREATE CLASSIC "BLACK-MARKET" OPERATIONS.

4. PRESENT ROLE OF FREE FOREIGN EXCHANGE SYSTEM: LARGE PERCENTAGE (PERHAPS 50 PERCENT) OF AFGHANISTAN'S TOTAL FOREIGN TRADE, BOTH LEGAL AND EXTRA LEGAL, HAS BEEN FINANCED BY MONEY BAZAAR. IN ADDITION, AS ONLY TRUE FREE FOREIGN EXCHANGE MARKET IN REGION, CURRENCY TRANSACTIONS AND FINANCIAL ARRANGEMENTS INVOLVING MANY COUNTRIES HAVE BEEN HANDLED THROUGH KABUL MONEY BA--4. FREELY CONVERTIBLE CURRENCY HELPS ATTRACT FOREIGN INVESTMENT AND PERHAPS MOST IMPORT EFFICIENCY OF MONEY BAZAAR

IN CONTRAST TO EXTREMELY POOR PERFORMANCE OF FORMAL BANKING SYSTEM IS MAIN THING THAT MAKES POSSIBLE TRADITIONAL FREE FLOW OF GOODS AND SERVICES THAT HAVE CHARACTERIZED AFGHAN ECONOMY. BAZAAR DEALERS MAINTAIN EXCELLENT COMMUNICATIONS LINKS WITH BIG MONEY MARKETS IN BOMBAY, TEHRAN, BEIRUT, FRANKFURT, ZURICH AND LONDON. IT IS THE AMRKET RATHER THAN GOVERNMENT THAT SETS FOREIGN EXCHANGE RATES FOR AFGHANI. GOVERNMENT INSTITUTIONS THEMSELVES FREQUENTLY BUY AND SELL EXCHANGE ON BAZAAR.

5. EFFECTS OF GOVERNMENT ACTIONS: AD HOC AND UNPUBLISHED CONTROLS INSTITUTED AT START OF COUP RESULTED IN CHAOTIC CONFUSION FOR TRAVELLERS AND DRYING UP OF GOOD PART OF MONEY BAZAAR. FOR SEVERAL DAYS EXCHANGE DEALERS WOULD NOT BUY FOREIGN CURRENCY CHECKS OF ANY SIGNIFICANT AMOUNT AND PRICE SPREAD CLIMBED FROM FREVIOUS LEVEL OF CHECKS BRINGING ONE OR TWO MORE AFGHANIS PER DOLLAR THAN CASH, TO SPREAD OF FIVE OR SIX AFGHANIS PER DOLLAR LESS THAN CASH. FOR FIVE OR SIX DAYS AFGHANIS PER DOLLAR LESS THAN CASH. FOR FIVE OR SIX DAYS BANKS WOULD NOT MAKE ANY TELEGRAPHIC TRANSFER AT ALL. IMMEDIATELY AFTER COUP VALUE OF AFGHANI DECLINED FROM 54-55 CASH DOLLARS TO 62-63. MANY AFGHANS, INCLUDING GOVERNMENT OFFICIALS, SWARMED TO BAZAAR TO PURCHASE HARD CURRENCY. THIS PRESSURE COUPLED WITH ADMINISTRATIVE CHAOS THAT FOLLOWED IMPOSITION OF CURRENCY CONTROLS APPARENTLY FORCED GOVERNMENT TO BACK DOWN FOR TIME BEING TO PRESERVE VALUE OF ITS CURRENCY.

6. IT IS KNOWN FACT THAT GOVERNMENT SIMPLY DOES NOT HAVE ADMINISTRATIVE MACHINERY NOR TECHNICAL KNOW-HOW TO ADMINISTER CURRENCY CONTROLS SYSTEM ITSELF. FOREIGN EXCHANGE DEALERS HAVE LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 04 KABUL 05979 131208Z

NOW RESUMED OPERATIONS AND PRICE SPREAD FOR CASH VS. CHECKS HAS DROPPED CONSIDERABLY. MOST DEALERS ARE CONFIDENT THAT GOVERNMENT WILL NOT ATTEMPT INSTALL GOVERNMENT-CONTROLLED FOREIGN EXCHANGE SYSTEM. SOME DEALERS NOW ABLE OBTAIN PASSPORTS AGAIN AND BUSINESSES NOW ABLE TO MOVE FREELY THROUGH BANKING SYSTEM. HOWEVER, NEW GOVERNMENT HAS NOT YET ANNOUNCED OR EVEN DECIDED UPON ITS OVERALL ECONOMIC POLICY AND DEPENDING UPON PHILOSOPHY REGIME EVENTUALLY ADOPTS, WE MAY SEE A RETURN TO ATTEMPTED FOREIGN EXCHANGE CONTROL. IT IS OUR JUDGEMENT THAT, GIVEN THE NATURE OF YOUNG ARMY OFFICERS, THERE IS A PROCLIVITY TOWARD THIS END. A MAJOR FACTOR, HOWEVER, ARE THE COMMITMENTS GIVEN TO IMF BY THE PREVIOUS REGIME IN CONNECTION WITH THE STANDBY ARRANGEMENT APPROVED BY IMF EXECUTIVE DIRECTORS ON JUNE 15, WITH EFFECTIVE DATE OF JUNE 18, AND THE STANDBY WAS PREDICATED IN PART ON A SERIES OF GOVERNMENT POLICY ACTIONS OF A BROAD ECONOMIC AND FISCAL NATURE WHICH WILL HAVE TO BE CONSIDERED BY THE NEW REGIME. WE BELIEVE, FURTHERMORE, THAT REALITIES OF AFGHAN MANAGEMENT CAPABILITIES WILL PRECLUDE EFFECTIVE IMPLEMENTATION OF AN EXCHANGE CONTROL SYSTEM IF SUCH A PROGRAM IS FINALLY EMBARKED UPON.

NEUMANN

LIMITED OFFICIAL USE

<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: X
Capture Date: 10 MAY 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 13 AUG 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973KABUL05979
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: n/a
From: KABUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730869/abqcefot.tel
Line Count: 166
Locator: TEXT ON-LINE
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: KABUL 5703
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 13 JUL 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <13-Jul-2001 by worrelsw>; APPROVED <12-Sep-2001 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FREE MARKET FOREIGN EXCHANGE SYSTEM UNDER FIREN
TAGS: EFIN, AF, IR, LE, PK, IN, GE, UR, UK
To: STATE INFO BEIRUT
BONN
ISLAMABAD
CUDTC LONDON
MOSCOW
NEW DELHI
TEHRAN

CINCPAC

Type: TE

Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005